A DISCUSSION OF PROFESSOR CASSEL'S ARTICLE

By IRVING FISHER
Yale University

There is nothing, I think, in Professor Cassel's able paper to which I cannot give a very hearty assent. Under these circumstances there seems to be no need for me to attempt any lengthy comment. I shall, therefore, merely restate, briefly, what seem to me the salient truths brought out by Professor Cassel and add a little emphasis to the remedies available.

While, theoretically, there are many possible causes for changes in the price level, the master key is always, or almost always, monetary. Even during the great war, when some countries' scarcity of goods played a big part, inflation played a still bigger part. This inflation has, incidentally, cut the purchasing power of gold in two, primarily through the displacement of gold by paper.

Changes and uncertainty in the purchasing power of the dollar and other monetary units escape notice as such, yet they are, in actual fact, far more serious than changes in the foreign exchanges. Furthermore, the change in the rate of exchange is, for the most part, a reflection of changes in relative purchasing power. The franc is worth so little today in America because it will buy so little in France. The true remedy, therefore, is to stabilize the purchasing power of monetary units in each separate country, (1) by stopping inflation, which implies stopping excessive governmental expenditures; (2) by a proper control of banking, especially as to the rate of discount, and (3) if we wish a complete solution, by varying the weight of the dollar.

If the United States will set the example other countries will follow. The great practical question is to select the price level for each country which we wish to maintain.

Undoubtedly, we shall soon see arrayed against each other the forces favoring inflation and those favoring deflation. There ought to be in each country, I believe, a judicial commission to determine what real justice demands. Merely to resume specie payment is not necessarily to render contractual justice, if the specie in which the resumption is to take place continues to have only half the value it had before the war. On the other hand, we would be too drastic if we attempted to go back to pre-war price levels. There has been a veritable "price revolution." The present high altitudes are not much above the levels of two or three years ago. Meanwhile, a great mass of contracts have come into existence, including government bonds. If all countries should deflate to restore the pre-war price level the French war debt, under which France is already staggering, would virtually be multiplied by three, for her present inflated price level represents a three-fold depreciation of the franc.

I imagine that a judicial commission, taking testimony as to contracts now outstanding and the price levels at which they were started would conclude that, while the immense amount of injustice created by the price upheaval of the war cannot be undone, the amount of injustice will be less if a

price level is chosen for the future, only slightly below the present price level, say 5, 10, or 15 per cent, varying in different countries.

Why should we not thus judicially and deliberately choose new price levels for our new world? In other words, why not choose anew our sovereign, franc, mark and dollar?

What the coins representing these monetary units *weigh* is of no consequence compared with what they *buy* and if we once decide on what they ought to buy, that is, what the general level of prices ought to be, it is easy to decide what the weight of the respective monetary units shall be to start with.

I do not mean that we should immediately drop down 5, 10, or 15 per cent. There should be a gradual approach, an inclined plane or gangplank, from existing price levels to the permanent price level decided upon, descending perhaps one-half of one per cent per month, or whatever other rate is, after careful consideration, found to be best.

I shall not attempt here to restate the plan, which I have so often advocated, of stabilizing the dollar, but take the liberty of referring the reader to my book by that title, now out, which attempts to give the full argument for stabilization for which, in some form, the needs of the times cry aloud.

If we once stabilize each individual monetary unit, we shall thereby also stabilize international exchanges between them.

DISCUSSION OF PROFESSOR GUSTAV CASSEL'S "PRICES AND THE MONETARY PROBLEM"

By WILLIAM A. SCOTT
University of Wisconsin

Professor Cassel's diagnosis of the monetary and price problem which now confronts the world is, in my judgment, confused and my own confidence in the value of the remedies he suggests is weakened by his loose use of the term inflation and his exclusive reliance upon the quantity theory of prices.

His test of the presence or absence of inflation appears to be prices. If their level has risen, he concludes that inflation is present, whether the immediate cause of the rise be the cheapening of gold or the depreciation in the inconvertible currencies of Europe. There would be no harm in such a use of the term if he did not rely chiefly upon inflation for his explanation of the change in the price level. To conclude that there is inflation whenever there is a rise in the level of prices and then to explain the rise by inflation is to reason in a vicious circle and to lead nowhere.

The quantity theory of prices is equally confusing and valueless in the present discussion. To refer to that old formula, in a discussion of the ultimate causes of price changes, is to misconceive the problem and to follow a false scent which will lead back to the point from which the start was made and throw no ray of light upon the dark places.

As I see the situation, there are three fundamental problems now awaiting